WORK ACTIVITY CENTER

Consolidated Financial Statements and
Independent Auditors' Report
Years Ended June 30, 2007 and 2006

WORK ACTIVITY CENTER

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June 30, 2007 and 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Work Activity Center
West Valley City, Utah

We have audited the accompanying consolidated statements of financial position of Work Activity Center (a not-for-profit organization) as of June 30, 2007 and 2006, and the related consolidated statements of activities, consolidated statements of functional expenses, and consolidated cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Work Activity Center at June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2007, on our consideration of Work Activity Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Karren, Hendrix, Stagg, Allen + Co.

Karren, Hendrix, Stagg, Allen & Company
August 20, 2007

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WORK ACTIVITY CENTER

Consolidated Statements of Financial Position
June 30, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash	$ 1,013,801	$ 823,485
Cash, temporarily restricted	417	15,072
Accounts receivable	360,402	341,021
Inventory	37,049	25,627
Prepaid expenses	31,713	53,411
Total current assets	1,443,382	1,258,616
PROPERTY AND EQUIPMENT, NET	1,362,181	1,351,160
OTHER ASSETS		
Intangible assets, net amortization of $45,000 and $30,000	-	15,000
Investments	27,336	20,078
Deposits	40	40
Total other assets	27,376	35,118
Total assets	$ 2,832,939	$ 2,644,894
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 69,778	$ 44,304
Accrued payroll and related taxes	115,307	94,669
Accrued annual leave	60,812	61,648
Current installments on notes payable	50,366	46,249
Total current liabilities	296,263	246,870
LONG TERM DEBT		
Notes payable, excluding current installments	598,881	648,888
Total liabilities	895,144	895,758
NET ASSETS		
Unrestricted	1,937,378	1,734,064
Temporarily restricted	417	15,072
Total net assets	1,937,795	1,749,136
Total liabilities and net assets	$ 2,832,939	$ 2,644,894

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Consolidated Statement of Activities
For the Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	2007 Total
REVENUE AND SUPPORT			
Grants	$ -	$ 24,695	$ 24,695
Contributions	23,683	-	23,683
Day training - state contracts	1,489,891	-	1,489,891
Day training - other	41,163	-	41,163
Transportation	256,802	-	256,802
Residential - state contracts	1,053,834	-	1,053,834
Residential - other	193,075	-	193,075
Supported employment - state contracts	171,823	-	171,823
Supported employment - other	-	-	-
Work activity projects	196,350	-	196,350
Investment income	43,099	-	43,099
Other income	61,313	-	61,313
Intensive employments services	13,993	-	13,993
School district services	-	-	-
SJBT, State of Utah	229,794	-	229,794
Interpreting services	210	-	210
Other income, Covenant	455	-	455
Assets released from restrictions	39,350	(39,350)	-
Total revenue and support	3,814,835	(14,655)	3,800,180
EXPENSES			
Program services			
Work activity and training	2,838,764	-	2,838,764
Transportation	599,992	-	599,992
Supporting services			
Management and general	162,918	-	162,918
Fund raising	9,847	-	9,847
Total expenses	3,611,521	-	3,611,521
INCREASE IN NET ASSETS	203,314	(14,655)	188,659
NET ASSETS, BEGINNING OF YEAR	1,734,064	15,072	1,749,136
NET ASSETS, END OF YEAR	$ 1,937,378	$ 417	$ 1,937,795

The notes to the financial statements are an integral part of this statement

WORK ACTIVITY CENTER

Consolidated Statement of Activities
For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	2006 Total
REVENUE AND SUPPORT			
Grants	$ -	$ 53,266	$ 53,266
Contributions	6,927	-	6,927
Day training - state contracts	1,498,020	-	1,498,020
Day training - other	41,012	-	41,012
Transportation	253,036	-	253,036
Residential - state contracts	1,112,178	-	1,112,178
Residential - other	171,188	-	171,188
Supported employment - state contracts	170,927	-	170,927
Supported employment - other	6,901	-	6,901
Work activity projects	164,277	-	164,277
Investment income	24,008	-	24,008
Other income	62,006	-	62,006
Intensive employments services	16,738	-	16,738
School district services	6,298	-	6,298
SJBT, State of Utah	201,358	-	201,358
Interpreting services	1,715	-	1,715
Other income, Covenant	301	-	301
Assets released from restrictions	39,078	(39,078)	-
Total revenue and support	3,775,968	14,188	3,790,156
EXPENSES			
Program services			
Work activity and training	2,907,413	-	2,907,413
Transportation	609,688	-	609,688
Supporting services			
Management and general	169,694	-	169,694
Fund raising	3,257	-	3,257
Total expenses	3,690,052	-	3,690,052
INCREASE IN NET ASSETS	85,916	14,188	100,104
NET ASSETS, BEGINNING OF YEAR	1,648,148	884	1,649,032
NET ASSETS, END OF YEAR	$ 1,734,064	$ 15,072	$ 1,749,136

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2007

	2007						
	Program Services				Supporting Services		
	Work Activity	Covenant	Subtotal	Trans-portation	Management & General	Fund Raising	Total
Salaries	$ 1,766,018	$ 164,362	$ 1,930,380	$ 255,767	$ 102,656	$ -	$ 2,288,803
Payroll taxes	173,228	14,657	187,885	25,088	10,070	-	223,043
Employee benefits	146,792	1,792	148,584	21,259	8,533	-	178,376
Total salaries and related expenses	2,086,038	180,811	2,266,849	302,114	121,259	-	2,690,222
Professional fees and service contracts	13,376	20,872	34,248	-	10,175	7,750	52,173
Office supplies, printing, and publications	12,063	2,301	14,364	-	9,183	-	23,547
Postage	2,284	642	2,926	-	1,761	-	4,687
Telephone	7,118	3,199	10,317	6,680	5,903	-	22,900
Occupancy	44,798	342	45,140	-	-	-	45,140
Supplies, repairs, and maintenance	155,389	2,685	158,074	39,970	-	819	198,863
Insurance	51,383	811	52,194	29,768	-	-	81,962
Transportation	-	-	-	209,554	-	-	209,554
Program supplies and services	86,196	562	86,758	-	4,742	1,128	92,628
Equipment rental	2,142	-	2,142	-	3,084	-	5,226
Food	-	-	-	-	-	-	-
Travel, conferences, and meetings	9,814	1,130	10,944	43	1,714	150	12,851
Interest	53,210	-	53,210	-	-	-	53,210
Bad debts	-	-	-	-	-	-	-
Miscellaneous	6,606	147	6,753	-	3,262	-	10,015
Depreciation/Amortization	75,845	19,000	94,845	11,863	1,835	-	108,543
Total expenses	$ 2,606,262	$ 232,502	$ 2,838,764	$ 599,992	$ 162,918	$ 9,847	$ 3,611,521

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2006

	2006						
	Program Services				Supporting Services		
	Work Activity	Covenant	Subtotal	Trans-portation	Management & General	Fund Raising	Total
Salaries	$ 1,759,570	$ 163,063	$ 1,922,633	$ 279,202	$ 107,599	$ -	$ 2,309,434
Payroll taxes	175,023	16,057	191,080	27,772	10,703	-	229,555
Employee benefits	118,539	1,454	119,993	18,809	7,249	-	146,051
Total salaries and related expenses	2,053,132	180,574	2,233,706	325,783	125,551	-	2,685,040
Professional fees and service contracts	23,817	55,466	79,283	-	12,107	99	91,489
Office supplies, printing, and publications	11,440	3,326	14,766	-	9,092	206	24,064
Postage	2,407	348	2,755	-	1,658	-	4,413
Telephone	8,755	3,338	12,093	7,134	7,548	-	26,775
Occupancy	153,451	4,544	157,995	-	-	-	157,995
Supplies, repairs, and maintenance	130,497	257	130,754	29,010	-	-	159,764
Insurance	43,933	1,008	44,941	27,917	-	-	72,858
Transportation	-	-	-	207,850	-	-	207,850
Program supplies and services	52,104	59	52,163	-	2,810	2,952	57,925
Equipment rental	682	-	682	-	1,728	-	2,410
Food	109	-	109	-	-	-	109
Travel, conferences, and meetings	11,222	2,431	13,653	237	3,000	-	16,890
Interest	56,284	-	56,284	-	-	-	56,284
Bad debts	-	-	-	-	871	-	871
Miscellaneous	8,543	353	8,896	-	3,719	-	12,615
Depreciation/Amortization	80,333	19,000	99,333	11,757	1,610	-	112,700
Total expenses	$ 2,636,709	$ 270,704	$ 2,907,413	$ 609,688	$ 169,694	$ 3,257	$ 3,690,052

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 188,659	$ 100,104
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation/Amortization	108,543	112,700
Net realized and unrealized gains on investments	(7,258)	(1,175)
(Increase) decrease in operating assets		
Accounts receivable	(19,381)	(34,682)
Inventory	(11,422)	2,717
Prepaid expenses	21,698	3,495
Deposits	-	5,000
Increase in operating liabilities		
Accounts payable and accrued expenses	45,276	12,958
Net cash flows provided by operating activities	326,115	201,117
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(104,564)	(19,341)
Net cash flows used by investing activities	(104,564)	(19,341)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	(45,890)	(46,962)
Net cash flows used by financing activities	(45,890)	(46,962)
NET (DECREASE) INCREASE IN CASH	175,661	134,814
CASH, BEGINNING OF YEAR	838,557	703,743
CASH, END OF YEAR	$ 1,014,218	$ 838,557

Supplemental disclosure of cash flow information:

Cash paid for interest in 2007 and 2006 was $53,210 and $56,284, respectively.
No income taxes were paid.

STATEMENTS OF CASH BALANCES		
Cash, unrestricted	$ 1,013,801	$ 823,485
Cash, temporarily restricted	417	15,072
	$ 1,014,218	$ 838,557

The notes to the financial statements are an integral part of this statement.

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization
The Work Activity Center is a not-for-profit corporation organized and operated in accordance with the provisions of Utah law. The Center provides training, supervised residential living, outside supported employment opportunities, in-house work opportunities, and other activities for handicapped adults. Covenant Employment Services is a limited liability company fully owned and operated by the Work Activity Center, fully formed in accordance with the provisions of Utah law. Covenant provides intensive job training services for adults. Over 90% of the entities' income is from fees for service contracts with the State of Utah Department of Human Services, Division of Services for People with Disabilities.

Consolidated Financial Statements
On October 1, 2004, Work Activity Center acquired Covenant Employment Services for $65,000. The combination was accounted for by the purchase method and resulted in the recording of an intangible asset in the amount of $45,000 for future contract values. The intangible asset will be amortized over its expected contractual life of 3 years using the straight line method. The accompanying financial statements include operations of Covenant Employment Services for the years ended June 30, 2007 and 2006.

Method of Accounting
The accompanying financial statements have been prepared in accordance with the *Standards for Not-For-Profit Organizations Audit and Accounting Guide* issued by the American Institute of Certified Public Accountants. They also comply with the Statement of Financial Accounting Standards (SFAS) No. 117, issued by the Financial Accounting Standards Board (FASB). They are stated on the accrual basis and include all material assets and liabilities of the Center. Functional expenses are allocated to program and supporting services using estimates provided by management.

Cash and Cash Equivalents
For financial statement purposes, the Center considers all certificates of deposit and money market funds purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable
Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year end will be immaterial.

Property and Equipment
Purchased assets over $1,000 are recorded at cost. Donated assets over $1,000 are recorded at fair market value on the date of contribution. Depreciation and amortization are computed by use of the straight-line method using the estimated useful lives of each class of assets. Expenditures for major renovations and betterments, which extend the useful lives, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for 2007 and 2006 was $93,543 and $97,700, respectively.

Inventory
Inventories are accounted for on the first-in, first-out basis, and are valued at lower-of-cost or market. Inventories primarily consist of raw materials used in the training of clients.

Contributions
All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted donations that are received and released in the same year are shown as unrestricted. Unused portions are recognized as temporarily restricted until intended use is met.

Income Taxes
No amounts have been paid or accrued on the financial statements for income taxes. Work Activity Center is exempt from income taxes based on the provisions of the Internal Revenue Code 501(c)(3). Net income or loss from Covenant Employment services passes through to Work Activity Center as sole owner of the LLC, and is thus exempt from income taxes as well.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The Organization estimates the allocation of expenses between program, management and general, and fundraising. It is possible that the Organization's estimate of these items could change in the future, which could have a material affect on the financial statements.

Investments
Generally accepted accounting principles require that nonprofit organizations report certain investments at fair value. In accordance with that guidance, the Association accounts for its marketable equity securities at fair value as shown in quoted stock prices. Information about the fair value of investments and the unrealized gains and losses is discussed in Note 2.

Compensated Absences
The Organization accrues paid time off for employees based on years of service. The accrued paid time off was $60,811.86 and $61,647.54 for 2007 and 2006, respectively.

2. INVESTMENTS

Investments consist of the following at June 30, 2007 and 2006:

	2007	2006
Common stock - at fair market value	$ 27,336	$ 20,078
Dividends and interest	$ 459	$ 196
Net realized and unrealized gains and losses	7,258	1,175
Total return on investment	$ 7,717	$ 1,371

3. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at June 30, 2007 and 2006, is as follows:

Classification	Life	Cost Basis 2007	Cost Basis 2006
Land and improvements		$ 265,789	$ 262,757
Building and improvements	5-30 years	1,891,577	1,825,963
Leasehold improvements	3-5 years	102,168	102,168
Office furniture and equipment	6 years	125,264	121,054
Training equipment	6 years	56,363	56,363
Transportation equipment	3-6 years	190,282	158,574
		2,631,443	2,526,879
Less accumulated depreciation		(1,269,262)	(1,175,719)
Total property and equipment		$ 1,362,181	$ 1,351,160

4. NOTES PAYABLE

As of June 30, 2007 and 2006, notes payable are as follows:

	2007	2006
Note payable to Chase Bank due in monthly installments of $4,192 including interest at 9.05% through December 2014, secured by land and building in West Valley City, Utah	$ 235,243	$ 270,952
Note payable to GMAC Mortgage Corp due in monthly installments of $480 including interest at 6.625% through December 2028, secured by land and building in West Valley City, Utah	45,992	48,613
Note payable to GMAC Mortgage Corp due in monthly installments of $672 including interest at 6.625% through December 2028, secured by land and building in West Valley City, Utah	89,989	92,021
Note payable to Washington Mutual due in monthly installments of $1,185 including interest at 6.625% through December 2028, secured by land and building in West Valley City, Utah	159,940	163,433
Note payable to Washington Mutual due in monthly installments of $915 including interest at 7.50% through July 2029, secured by land and building in Salt Lake City, Utah	118,083	120,118
	649,247	695,137
Less current installments	(50,366)	(46,249)
Notes payable, excluding current installments	$ 598,881	$ 648,888

Maturities of notes payable in each of the next five years and thereafter are as follows:

2008	$ 50,366
2009	54,855
2010	59,749
2011	65,085
2012	67,868
Thereafter	351,324
	$ 649,247

5. WORK ACTIVITY PROJECTS

Handicapped adults at the Center participate in a variety or work activities (contract custodial services, manufacturing of goods for sale, salvage activities, etc.), which result in revenues to the Center. Those individuals are compensated in accordance with Department of Labor requirements.

6. LEASE AND RENTAL COMMITMENTS

Work Activity Center has entered into two operating lease agreements for rental space and transportation equipment. A number of rental payments are made for similar agreements on a month to month basis. These agreements do not contractually bind Work Activity Center for future payments, and are thus not disclosed as future obligation requirements. The lease agreements will expire at different dates and are expected to be renewed before expiration. The lease and rental expense was $10,414 and $114,664 for 2007 and 2006, respectively. The following is a schedule of future minimum payments for the leases:

2008	$ 7,200
2009	7,200
2010	7,200
2011	7,200
	$ 28,800

7. RETIREMENT PLAN

Effective July 1, 1996, the Center established a 403 (b) Tax Deferred Annuity Plan for eligible employees twenty-one years of age or older. To be eligible, an employee must work full time and must have worked for the Center for at least one full year. The Center will match employee contributions at 50% up to 10% of the employee's total wages. The Center has also contributed a discretionary $25.00 per month to all employees who join the plan. Employer contributions are fully vested after six years of service, and increase in 20% increments during the second to fifth year. Center expense for the plan was $27,836 in 2007 and $26,324 in 2006.

8. CONCENTRATIONS OF CREDIT RISK

Work Activity Center receives most of its income from fees for service contracts with the State of Utah Department of Human Services, Division of Services for People with Disabilities. If there should be a major cutback in the Department of Human Services, it could materially affect the operations of the Center.

9. UNINSURED CASH BALANCES

Work Activity Center maintains cash balances in various accounts. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000 for each account. At June 30, 2007, the Center's uninsured cash balances totaled $813,744.

10. COVENANT EMPLOYMENT SERVICES, LLC

On September 20, 2004, Work Activity Center created Covenant Employment Services, LLC and purchased certain assets of Covenant Job Supportive Services, LLC. Activities from the year ended June 30, 2007 and 2006 are included in these financial statements. The purchase agreement between Covenant Employment Services, LLC and the seller required a down payment of $65,000. It also requires quarterly payments of 8% of gross revenues of contracts acquired. Payments are accrued and paid quarterly through June 2012, with a maximum revenue percentage payout of $270,000.

11. RESTRICTIONS ON NET ASSETS

Work Activity Center has received various grants from multiple organizations that are restricted in use for specific programs or construction of specific assets. These funds are tracked and reported separately in the financial statements.

12. INTANGIBLE ASSETS

Intangible assets, consisting of contractual agreements for employment services, are amortized using the strait-line method over three years. The recoverability of intangible assets is periodically reviewed to determine whether adjustments are needed to carrying values. There were no adjustments for the year ended June 30, 2007, and June 30, 2006. Amortization expense for the year ended June 30, 2007, and 2006 was $15,000 each year.

13. RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Work Activity Center

We have audited the financial statements of Work Activity Center (a not-for-profit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated August 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Work Activity Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Work Activity Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

We noted that general expenses are being allocated to the various programs based on percentages determined several years ago. Particularly with the addition of Covenant Employment Services, we recommend that studies be done to ensure the accuracy of allocation statistics. Short of doing a time study, other statistics can be considered such as number of billings, or another statistic that reasonably represents the costs being allocated.

CERTIFIED PUBLIC ACCOUNTANTS

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We also noted that some asset items that were above the capitalization policy of $1,000 were expensed as repairs and maintenance and not capitalized. The usual practice is that if an item extends the life of an asset it should be capitalized. If an asset is repaired or periodic maintenance is performed, then those items should be expensed. We recommend that each asset purchase or repair should be evaluated based on the above practices. In addition, during our audit we noted that there were multiple items on the depreciation schedule that were fully depreciated. We recommend that the depreciation schedule should be reviewed, paying particular attention to any Sandy facility assets, to identify those assets that are no longer in use so that an adjustment can be made to get the unused assets off of the books. Finally, the depreciation schedule also includes one asset valued at $20,000, which encompasses all of the assets acquired from the purchase of Covenant Employment Services. We recommend that you breakout those assets and assign a value to each one so once one of those assets are no longer in use, it can be removed from the books, separately from the others.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Work Activity Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Work Activity Center in a separate letter dated August 20, 2007.

This report is intended solely for the information and use of management and Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.

Karren, Hendrix, Stagg, Allen & Co.

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August 20, 2007

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INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors
Work Activity Center

We have audited the financial statements of Work Activity Center, a not-for-profit corporation, for the year ended June 30, 2007, and have issued our report thereon dated August 20, 2007. As part of our audit, we have audited Work Activity Center's compliance with the requirements governing types of services and their allowed or un-allowed eligibility, matching, level of effort or earmarking, reporting, and special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah Legal Compliance Audit Guide for the years ended June 30, 2007 and 2006. Work Activity Center received the following major assistance programs from the State of Utah:

Program Support and transportation provided to handicapped adults. Funds are provided by the Department of Health and Human Services of the State of Utah.

The management of Work Activity Center is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material on compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Work Activity Center's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Work Activity Center complied, in all material respects, with the requirements governing types of services and their allowed or un-allowed eligibility, matching, level of effort or earmarking, reporting, and special tests and provisions that are applicable to each of its major state assistance programs for the years ended June 30, 2007 and 2006.

Karren, Hendrix, Stagg, Allen & Co.

Karren, Hendrix, Stagg, Allen & Company
August 20, 2007

CERTIFIED PUBLIC ACCOUNTANTS

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